

Hot Topics

- House prices slipped back slightly in February, declining by 1% over the month. In addition, both lending and approvals have been markedly lower at the start of this year compared with the end of '09.
- This is not wholly unexpected. It partly reflects the bad weather at the start of the year and the end of the stamp duty holiday. However, it is also symptomatic of this stage of recovery, which is still very much in its infancy; underlying uncertainty remains and we expect a certain amount of volatility over the coming year with monthly price rises punctuated by falls. It is certainly too early and pessimistic to call the start of a further protracted fall in prices.
- There is a continued shift away from owner occupation and towards the private rental sector. Although this partly reflects long-run price increases and more recently market uncertainty, it also signals a shift in attitude. A recent CBRE survey found a large proportion of tenants had a long-term approach to renting; a quarter had no impending plans to buy and classed themselves as 'happy renters'.

OVERVIEW

- According to the latest data from Nationwide, house prices slipped back slightly in February, declining by 1% over the month. Halifax also showed a 1.5% fall in prices.
- Mortgage lending declined by 32% to just over 9 billion in January; although a decline is usually experienced between December and January, this was larger than average.
- Mortgage approvals fell for the second consecutive month in January. At 48,198, approvals for new house purchase fell to an eight-month low and were down by almost 19% on November's high of 59,307.
- Although fairly pessimistic, these falls are not wholly unexpected and do not necessarily signal a renewed downturn. The recovery is still very much in its infancy and there will be a certain amount of volatility over the coming year with monthly rises punctuated by monthly falls across all performance indicators.
- In addition, the data is likely to have been distorted by the end of the stamp duty holiday and the appalling weather conditions at the start of the year. This makes interpretation difficult.
- The Survey of English Housing confirms a continuing decrease in owner occupation. Since its peak of 14.8 million in 2005 and 2006, the number of owner occupied households has fallen to 14.6 million in 2008-09.
- In contrast, the number of private rental households increased by one million since 2001, from 2.1 million to 3.1 million in 2008-09.
- The shift from home ownership to renting partly reflects pricing. The cost of buying a property now exceeds the cost of renting. However, a recent CB Richard Ellis survey suggests the changing trend is more than a reaction to recent house price movements and might signal a shift in attitude.

House Prices



Source: Nationwide; CB Richard Ellis

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2009 OUTPERFORMS EXPECTATIONS

According to the latest data from Nationwide, house prices slipped back slightly in February, declining 1% over the month. This ends a run of nine consecutive monthly increases. At £161,320, average house prices are still considerably lower than the October 2007 cyclical peak of £186,044, but are 9% higher than the February 2009 trough of £147,746.

The fall in prices partly reflects the bad weather at the start of the year and the end of the stamp duty holiday. However, symptomatic of this stage of recovery, which is still very much in its infancy, an underlying uncertainty remains and we expect a certain amount of volatility over the coming year with monthly price rises punctuated by falls. It is certainly too early to call a start of a further protracted fall in prices, but it will dampen the bulls enthusiasm.

ACTIVITY SLUMPS AT START OF THE YEAR

Both lending and mortgage approvals were markedly lower at the start of this year compared with the end of '09. However, the data is likely to be distorted by the end of the stamp duty holiday and the inclement weather conditions at the start of the year, which makes its interpretation difficult.

According to the Council of Mortgage Lenders, gross mortgage lending declined to £9.1 billion in January, a 32% fall from £13.4 billion in December and a 21% fall from £11.5 billion in January 2009. Although a decline is usually experienced between December and January, this was larger than average and takes lending to its lowest level since February 2000. The pick-up in both the number of first-time buyers and loans of properties costing under £175,000 suggests the market was boosted by borrowers in December timing purchases before the end of stamp duty holiday.

Mortgage approvals fell for the second consecutive month in January. At 48,198, approvals for new house purchase fell to an eight-month low and were down by almost 19% on November's high of 59,307.

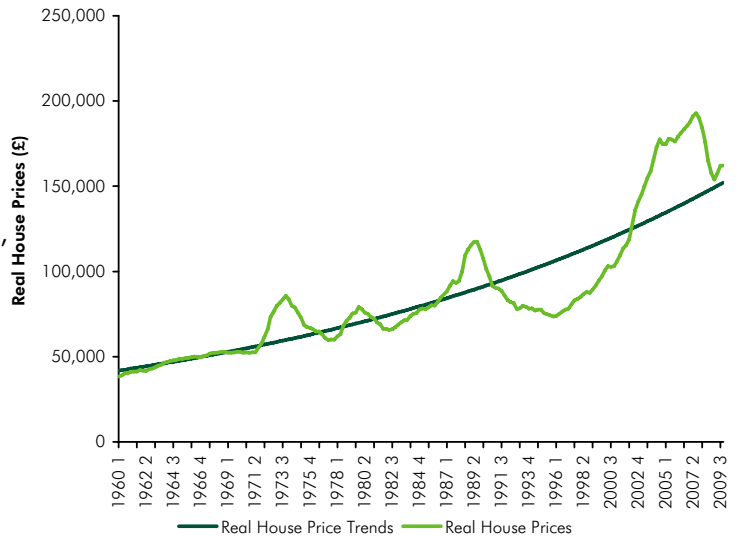
According to the RICS survey the fall in activity levels are temporary, reflecting one-off factors. As such surveyors remain optimistic with respect to future activity levels. For example, there was a pick-up in sales expectations. There was also an increasing number of surveyors seeing price rises rather than falls.

However, recent data from Hometrack point to continued weak activity; its new buyer registrations were particularly weak in February. But, we should not be surprised by a "faltering recovery", considering the economy has only just emerged from recession and the labour market remains fragile.

INTEREST RATE RISES EXPECTED BUT NOT IMMINENT

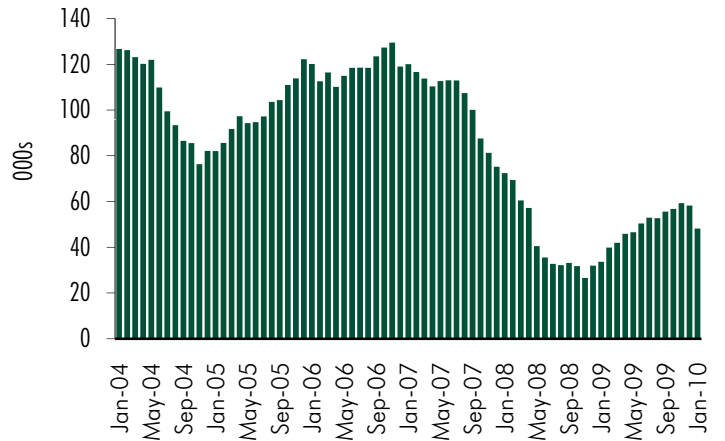
The availability and cost of credit will play a deciding role in the future trajectory of the housing market. Rates have now been at 0.5% for a year, the lowest ever level. However, inflation has risen well above expectations; the CPI rose from 1.9% to 3.5% in just two months. And despite the weak economy, raises further speculation about when base rates will rise.

Real House Prices



Source: Nationwide Building Society

Mortgage Approvals, 000s



Source: Bank of England

House Hunters per Agent



Source: NAEA



Election Analysis: Activity

Number of Approvals (000s)

	1983	1987	1992	1997	2001	2005
Quarter Prior	420	454	266	299	298	259
Quarter of Election	413	496	271	308	320	286
Quarter Post	412	513	333	296	327	305
Annual Average	418	504	282	290	314	299

Notes: * Transactions data used for 1983, 1987 and 1992
Source: Bank of England and DCLG

A recent Reuters poll [of economists] predicts base rates will rise by 25 basis points (to 0.75%) in the fourth quarter of 2010, and then to 1.25% in the first three months of 2011, reaching 1.75% by June. Swap markets are slightly more conservative than the Reuters poll; pricing in 1.25% by late summer in 2011. Mervyn King and Paul Tucker have both independently suggested that no base rate rises are imminent and as the economy is so weak, it is even debatable whether they will rise at all before the year end. The elephant in the room maybe the slide in Sterling – we will be watching this space.

Although it is widely believed that a general election would cause additional disruption to the housing market, there is no historical evidence to back this up. The exception is perhaps the 1987 election, when transactions were slightly below trend in the quarter over the election.

CONTINUED GROWTH IN PRIVATE RENTAL

The English Housing Survey confirms the recent decline in owner occupation. Although it rose steadily throughout the 80s and, at a lesser rate, throughout the 90s, ownership peaked at 14.8 million in 2005/2006; it has subsequently declined to 14.6 million in 2008-09. In contrast the number of households privately renting rose by one million since 2001, from 2.1 million to 3.1 million (around 200,000 of these in London).

RENTING IS CHEAPER THAN BUYING

These tenure trends partly reflect a decade of house price rises, with many potential first-time buyers being priced out of the market and left with no option than renting. More recently it reflects market uncertainty and credit constraints. Regardless, it is currently significantly cheaper to rent than buy, even with low interest rates. According to findaproperty.com, average rents are £814 per month (or £9,768 pa). This compares with a monthly mortgage payment of between £1,200 and £1,500 pcm (depending on deposit for property value £217,00).

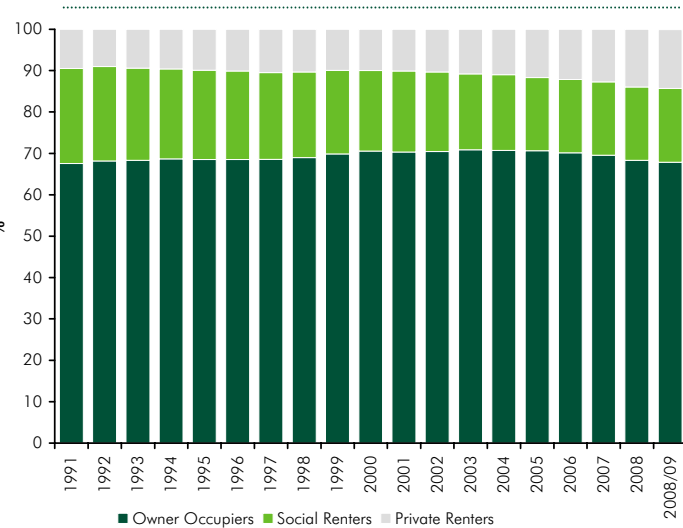
Owner occupation also incurs initial costs such as stamp duty, surveys, solicitor fees etc and there are associated ongoing costs of maintenance and building insurance. However, owning brings the prospect of capital growth; just modest annual growth can over time equalise the cost across the different the tenure types. But as the current climate demonstrates this is not guaranteed.

There are non-financial reasons for buying or renting. Buying provides a degree of stability; landlords raising rents, administration charges or serving notice, will not be a concern. In addition, owning a property has psychological effects; putting down roots etc.

Conversely, renting offers freedom and mobility. Renting has limited commitments, allowing a person to be transient; renters are not responsible for the maintenance, nor are they concerned by house prices falls or mortgage rate changes.

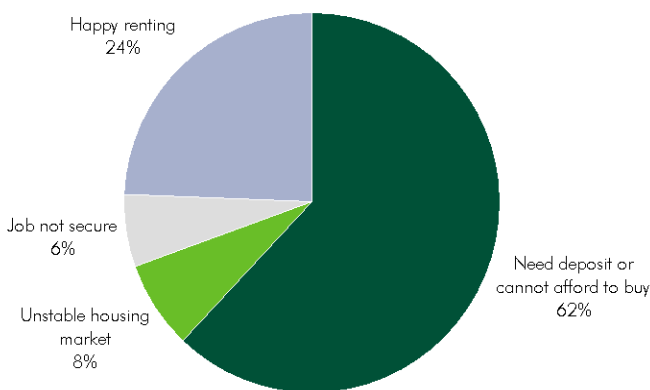
A recent CB Richard Ellis survey suggests the trend towards renting is more than a reaction to recent house price movements. The survey found a proportion of tenants had a long-term approach to renting; only 17% of those asked anticipated renting for at least four years. A quarter had no impending plans to buy and classed themselves as 'happy renters'.

Tenure as a % of Total stock



Source: DCLG

Reasons for Renting



Source: CBRE

HOUSE PRICE INDICES

	M-on-M	Q-on-Q	Y-on-Y	Level
Nationwide (Feb)	-1%	2.1%	9.2%	£161,320
Halifax (Jan)	0.6%	3.5%	3.6%	£169,777
Land Registry (Jan)	2.1%		5.2%	£165,088
Hometrack (Mar)	0.3%		0.4%	
CLG (Nov)		3.5%	2.9%	£200,307
Rightmove (Feb)	3.2%		6.1%	£229,398

ACTIVITY INDICATORS

	M-on-M	Q-on-Q	Y-on-Y	Level
Mortgage Approvals (Jan)	-17%		43%	48,198
Gross Mortgage Lending (Nov)	-32%		-21%	£9.1bn
Housing Completions (Q3)		-10%	-13%	27,400
Housing Starts (Q3)		19%	19%	26,600

ECONOMIC INDICES

	M-on-M	Q-on-Q	Y-on-Y	Rate
GDP (Q4)		0.3%		
CPI (Jan)			3.5%	
RPI (Jan)			3.7%	
Unemployment (Sep to Nov 09)				7.8%

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